

Fiscal Note

Fiscal Services Division



HF 671 – Property Tax Reform Act (LSB 1484HV)

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Fiscal Note Version – New

Description

Division I of [House File 671](#) increases the school aid formula regular program foundation level beginning in FY 2013. The foundation level increase will be phased in until the percentage reaches 100.0% in FY 2019.

Division II requires assessment limitations for residential, agriculture, and commercial classes of property to be tied together. This limits the percentage increase for these classes of property to the class of property that has the lowest percentage of increase (up to 4.0%). Division II also requires the lowest percentage increase to apply to the industrial class of property.

Assumptions

Division I

Increasing the school aid formula regular program foundation level will increase the amount of State aid and reduce the amount of local property tax. The assumptions used to estimate the fiscal impact of Division I include assuming no changes in enrollment or weightings for FY 2012 through FY 2019. Additionally, the future allowable growth rates will also have an impact on the estimates of Division I. This estimate provides fiscal impact scenarios assuming a 0.0% allowable growth rate for FY 2012 through FY 2019 and a 4.0% allowable growth rate for FY 2012 through FY 2019.

Division II

Assumptions for Division II include:

- Based on Department of Revenue estimates, the following table provides rollback limits and the total taxable valuation growth under the current law and the proposal in HF 671. Without the commercial tie (current law), the rollback limits for residential and agriculture classes of property would reach the maximum percentage of 4.0% for each year. The proposal tying commercial growth to the residential and agriculture class of property will impact assessment years 2012 through 2016 and result in a reduction in total taxable valuation growth compared to current law.

		Current Law		Proposal	
Assessment Year	FY	Rollback Limit	Total Taxable Valuation Growth	Rollback Limit	Total Taxable Valuation Growth
2011	2013	4.00%	3.42%	4.00%	3.42%
2012	2014	4.00%	3.82%	0.00%	1.19%
2013	2015	4.00%	4.71%	2.00%	3.33%
2014	2016	4.00%	4.50%	0.00%	1.79%
2015	2017	4.00%	4.98%	2.00%	3.58%
2016	2018	4.00%	4.51%	0.00%	1.73%

- The school district levy impact provided in this estimate includes the school district additional levy, the instructional support program levy, the educational improvement levy, the cash reserve levy, and the management levy. Based on trend data, the LSA used a growth factor of 5.8% annually for this levy amount. The total school levy amount will not change, but reducing valuation to apply the levy amount against will result in an overall levy rate increase.
- The school district levy is applied to taxable valuation that does not include Tax Increment Financing (TIF) valuations above the TIF base amount. The LSA assumes that the school district levy will be applied to 93.5% of the total taxable valuation to account for the TIF valuations above the TIF base amount.
- The State will replace the school district uniform levy amount as a result of any reduction in valuation compared to current law. The School Foundation uniform levy rate is \$5.40 per \$1,000 of valuation.
- The impact of Division I of the Bill (School Foundation Regular Program Foundation Level Increases) has been factored in the estimate for Division II and assumes a 0.0% allowable growth rate for each year.
- The estimated local tax revenue reduction due to the valuation reduction is based on a statewide consolidated rate of \$36.64/\$1,000 of valuation for assessment year 2009, and increased annually by 1.0%. Additionally, the rate has been adjusted to remove the \$5.40/\$1,000 school foundation uniform levy rate and the school levy rate amount for each year displayed.
- The estimate is based on State totals and may differ significantly from the actual impact to each local government jurisdiction.

Fiscal Impact

Overall Estimated General Fund Impact

House File 671 will increase General Fund expenditures as a result of foundation level increases in **Division I** and replacement of the school foundation uniform levy as a result of taxable valuation growth limitations specified in **Division II**. Assuming a 0.0% allowable growth rate for all years noted, the estimated General Fund expenditure increase will be:

- FY 2012: No impact
- FY 2013: \$57.4 million for the foundation level increase.
- FY 2014: \$77.2 million (\$58.0 million for the foundation level increase and \$19.0 million for the school foundation uniform levy replacement).
- FY 2015: \$69.1 million (\$58.0 million for the foundation level increase and \$11.1 million for the school foundation uniform levy replacement).
- FY 2016: \$79.5 million (\$57.4 million for the foundation level increase and \$22.1 million for the school foundation uniform levy replacement).
- FY 2017: \$71.4 million (\$58.0 million for the foundation level increase and \$13.4 million for the school foundation uniform levy replacement).
- FY 2018: \$83.4 million (\$58.0 million for the foundation level increase and \$25.4 million for the school foundation uniform levy replacement).

Allowable growth rates established that are greater than 0.0% in the years shown will increase the estimated General Fund expenditure amounts provided above. The following sections provide additional detail by Division, including the estimated impact on State aid (General Fund expenditures) based on the different allowable growth rates.

Division I

Table 1 provides the potential fiscal impact of increasing the school aid regular program foundation level assuming an allowable growth rate of 0.0% for FY 2012 through FY 2019. In general, State aid increases (and local property tax decreases) approximately \$57.0 to \$58.0 million annually until the foundation level reaches 100.0% in FY 2019. By FY 2019, the total State aid increase/property tax reduction amount is estimated at \$405.7 million under this scenario.

	Allowable Growth Rate	Foundation Level Percentage	Current Law Property Tax	Proposal Property Tax Amount	Impact: Decrease in Property Tax and Increase in State Aid	State Aid Increase over Previous Fiscal Year
FY 2012	0.0%	87.50%	\$ 405.7	\$ 405.7	\$ 0.0	\$ 0
FY 2013	0.0%	89.28%	405.7	348.3	57.4	57.4
FY 2014	0.0%	91.06%	405.7	290.3	115.4	58.0
FY 2015	0.0%	92.84%	405.7	232.4	173.3	58.0
FY 2016	0.0%	94.62%	405.7	175.0	230.7	57.4
FY 2017	0.0%	96.40%	405.7	117.0	288.7	58.0
FY 2018	0.0%	98.18%	405.7	59.1	346.6	58.0
FY 2019	0.0%	100.00%	405.7	0.0	405.7	59.1

Table 2 assumes an annual allowable growth rate of 4.0% for FY 2012 through FY 2019. In FY 2013, State aid increases (property tax decreases) by an estimated \$62.4 million. As the foundation level percentage phase-in increases, State aid increases annually and by FY 2019, State aid is estimated to increase \$98.8 million. By FY 2019, the total State aid increase/property tax reduction amount is estimated at \$555.3 million under this scenario.

	Allowable Growth Rate	Foundation Level Percentage	Current Law Property Tax	Proposal Property Tax Amount	Impact: Decrease in Property Tax and Increase in State Aid	State Aid Increase over Previous Fiscal Year
FY 2012	4.0%	87.50%	\$ 422.2	\$ 422.2	\$ 0.0	\$ 0
FY 2013	4.0%	89.28%	438.8	376.4	62.4	62.4
FY 2014	4.0%	91.06%	456.5	326.8	129.7	67.3
FY 2015	4.0%	92.84%	474.7	272.1	202.6	72.9
FY 2016	4.0%	94.62%	494.0	212.5	281.5	78.9
FY 2017	4.0%	96.40%	513.3	147.9	365.4	83.9
FY 2018	4.0%	98.18%	534.3	77.8	456.5	91.1
FY 2019	4.0%	100.00%	555.3	0.0	555.3	98.8

The estimates provided in **Tables 1** and **2** do not include any Property Tax Equity and Relief Fund (PTER) used to provide school aid property tax relief to school districts with the highest adjusted additional levy tax rates. In FY 2012, the amount is estimated to total \$30.7 million, including \$24.0 million from a General Fund appropriation and \$6.7 million from the remaining State sales/use tax for school infrastructure funds.

Division II

Table 3 provides the estimated fiscal impact of Division II. The annual estimates are based on a numerous assumptions that are subject to change. Any variation in assumptions could significantly impact the estimates displayed in the table. Additionally, estimates are provided on a statewide basis and may vary significantly among local taxing jurisdictions.

The estimated fiscal impact will first occur in FY 2014 and will include an increase in State school aid (replacement of the school uniform levy) of \$19.2 million, an overall school levy rate increase of \$0.2154 per \$1,000, and a reduction in local government tax revenue totaling \$89.5 million. By FY 2018, the estimated annual fiscal impact will be an increase in State school aid of \$25.4 million, an overall school levy rate increase of \$0.2083 per \$1,000, and a reduction in local government tax revenue totaling \$131.3 million.

Table 3: Estimated Fiscal Impact of Division II (Dollars in Millions)

Assessment Year	Fiscal Year	Reduction in Total Taxable Valuation	School Uniform Levy Replacement (State Aid Increase) Amount	Incremental School Uniform Levy Replacement Amount	Estimated School Levy Rate Increase*	Incremental School Levy Rate Increase*	Estimated Local Tax Revenue Reduction	Incremental Local Tax Revenue Reduction
2011	2013	\$ 0.0	\$ 0.0	N.A.	\$ 0.0000	N.A.	\$ 0.0	N.A.
2012	2014	-3,811.7	19.2	19.2	0.2154	0.2154	-89.5	-89.5
2013	2015	-6,001.7	30.3	11.1	0.3178	0.1025	-144.2	-54.6
2014	2016	-10,370.3	52.4	22.1	0.5256	0.2078	-253.0	-108.9
2015	2017	-13,033.6	65.8	13.4	0.6202	0.0946	-324.6	-71.5
2016	2018	-18,068.7	91.2	25.4	0.8286	0.2083	-455.8	-131.3

*Levy rates expressed in \$1,000 of taxable valuations.

Sources

Iowa Department of Management, School Aid file
Iowa Department of Education, Certified Enrollment file
Iowa Department of Revenue
LSA analysis and calculations

/s/ Holly M. Lyons

April 19, 2011

The fiscal note for this bill was prepared pursuant to [Joint Rule 17](#) and the correctional and minority impact statements were prepared pursuant to Code [Section 2.56](#). Data used in developing this fiscal note is available from the Fiscal Services Division of the Legislative Services Agency upon request.
